

COMPANY UPDATE

Minth Group (425 HK)

Trim Target Price To HK\$20.00 On Slower Industry Growth Despite Strong Orders

Minth's revenue will be driven by the ramp-up of EV-related new projects and the expansion of its customer base to include more Chinese carmakers. However, the slowdown in global EV sales and intensifying price competition will drag earnings growth. All in all, we keep our 2023 EPS estimate at Rmb1.69 and trim 2024-25 EPS estimates by 8%/11% to Rmb1.87/Rmb2.16 respectively. Maintain BUY. Cut target price from HK\$33.00 to HK\$20.00.

WHAT'S NEW

- 2H23 business not impacted much by UAW strike.** The strike of United Auto Workers (UAW) ended in early November with an agreed 30-40% wage hike. Minth Group's (Minth) business was not impacted much by the UAW strike in the US, which had resulted in dampened orders from certain Chrysler factories. However, Minth merely saw some orders being deferred from 2H23 to 1H24. According to our channel check, Minth should have seen yoy and hoh growth in revenue,
- 2024-25 revenue CAGR estimated at 16%, vs 20% previously.** The market expects global sales volume of passenger vehicles (PV) and electric vehicles (EV) to grow 1-2% and over 30% respectively in 2024. However, we are expecting 0% and 20% instead, based on lower China growth. According to our channel check, the indicative orders from Minth's 12 major customers, including Chinese carmakers Geely, Great Wall Motor (GWM), Guangzhou Auto (GAC) and BYD, grew only 5% yoy in Jan-Feb 24. We expect 18% revenue CAGR in 2024-25 for Minth, driven by the ramp-up of EV-related products and expansion of customer base. Our lower revenue growth estimates for 2024-25 reflect the slower global EV sales growth in 2024.
- Increasing orders for EV-related products from Chinese carmakers and global OEMs.** Minth secured big orders (especially for EV-related products), from Chinese carmakers (Geely, GWM, GAC, BYD, Aito, Li Auto, XPeng, Nio, IM Motors, etc) and global OEMs like Volkswagen (VW), BMW and Daimler in 2022-23, and those projects will kick off and ramp up in 2024-25. The new order intakes in 2023 should have exceeded the record of Rmb15.6b in 2022, beating its target of Rmb11.5b. EV-related products as a percentage of revenue spiked from 28% in 2022 to 40% in 2023, and we expect this to rise to 50%/60% in 2024/25 respectively, driven by battery housings and aluminium structural parts. Sales revenue of battery housings is targeted to grow from Rmb2b (20% of total revenue) in 2022 to Rmb3.5b-4.0b in 2023 and Rmb10b (35% of total revenue) in 2025. As a complementary product line to battery housing, aluminium structural part will probably see sales revenue growing from Rmb400m-500m in 2023 to Rmb1b-2b in 2024-25. When it comes to client mix, we expect Chinese carmakers' contribution to Minth's revenue to rise from 15% in 2023 to 20%/25% in 2024/25.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	13,919	17,306	21,300	25,000	28,800
EBITDA	3,009	3,153	3,871	4,250	4,755
Operating profit	2,087	2,032	2,593	2,849	3,261
Net profit (rep./act.)	1,497	1,501	1,928	2,129	2,459
Net profit (adj.)	1,078	1,494	1,928	2,129	2,459
EPS (fen)	137.1	133.0	169.3	187.0	216.0
PE (x)	8.3	8.6	6.7	6.1	5.3
P/B (x)	0.8	0.8	0.7	0.7	0.6
EV/EBITDA (x)	5.9	5.6	4.6	4.2	3.7
Dividend yield (%)	4.7	5.1	5.1	5.1	5.1
Net margin (%)	7.7	8.6	9.1	8.5	8.5
Net debt/(cash) to equity (%)	4.5	17.9	24.8	26.3	25.5
Interest cover (x)	7.9	7.7	8.7	8.8	9.4
ROE (%)	7.0	9.1	11.0	11.3	12.0
Consensus net profit	-	-	1,937	2,407	2,961
UOBKH/Consensus (x)	-	-	1.00	0.88	0.83

Source: Minth, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	HK\$12.44
Target Price	HK\$20.00
Upside	+60.8%
(Previous TP)	HK\$33.00)

COMPANY DESCRIPTION

Minth Group manufactures body structural parts, decorative parts and trims of automobiles, and supplies to international automakers.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	425 HK
Shares issued (m):	1,162
Market cap (HK\$m):	14,453
Market cap (US\$m):	1,865
3-mth avg daily t'over (US\$m):	5.0

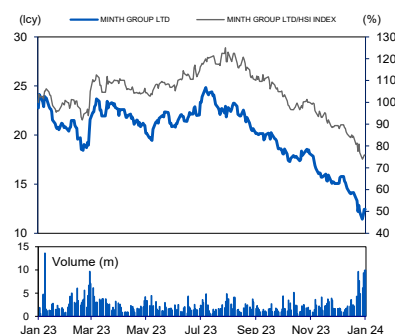
Price Performance (%)

52-week high/low	HK\$25.40/HK\$11.10			
1mth	3mth	6mth	1yr	YTD
(17.4)	(32.5)	(43.6)	(45.3)	(21.2)

Major Shareholders

Chin Jong Hwa	38.74
FY23 NAV/Share (HK\$)	16.96
FY23 Net Cash/Share (HK\$)	4.23

PRICE CHART



Source: Bloomberg

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- **Impact of Germany cancelling EV subsidies offset by ramp-up of new projects with VW.** Germany ended the EV subsidy scheme in Dec 23, dampening VW's EV sales in Europe. This is supposed to hit Minth's business, as VW contributed 25% of its 2023 revenue. However, Minth managed to secure more projects from VW in 2023 for European market, which will more than offset the impact. Overall, Minth's revenue from VW is still likely to grow in 2024-25.
- **Margin improvement in 2H23, but 2024-25 margins pressured by price war in China.** We expect Minth's gross margin to improve in 2H23 based on the decline in raw material cost, the ramp-up of the battery housing business, and the improvement in operational efficiency of the plastic product segment. Looking into 2024-25, we expect Minth's margins to be pressured by the intensifying price war in China's automobile industry. The China market contributed nearly half of Minth's 2023 revenue, and Chinese brands accounted for 25-30% of the company's China revenue, ie 12-15% of total revenue. Chinese carmakers are more inclined to request additional price cuts for automotive parts from suppliers, compared with global brands. Also dampening margins will be the rising share of the lower-margin overseas factories (especially those in Czech, Serbia, France and the US) in revenue contribution (30% in 2023) along with the OEMs' localisation of supply chain.
- **Capex peaked in 2022** with the completion of the Rmb10b capacity for battery housings (Rmb5b in total investments). As such, we expect the company's capex to drop from Rmb3.3b in 2022 to Rmb3b in 2023 and Rmb2.5b p.a. in 2024-25.

STOCK IMPACT

- We maintain our 2023 revenue estimate at Rmb21.3b and trim those for 2024-25 by 4%/7% to Rmb25b/Rmb28.8b, implying 16% CAGR, based on slower global vehicle sales growth.
- We maintain 2023 gross margin assumption at 26.5% and cut those for 2024-25 by 0.6ppt to 26.0%/26.0% to factor in the pricing pressure amid the price war in China's automobile industry.

EARNINGS REVISIONS/RISKS

- **We maintain our 2023 net profit forecast at Rmb1,928m and cut 2024-25 net profit forecasts by 8%/11% to Rmb2,129m/Rmb2,459m respectively**, based on lower revenue and gross margin. Our 2024-25 earnings estimates are 12%/17% below consensus given our lower estimates on revenue growth.

RECOMMENDATION

- **Maintain BUY and cut target price from HK\$33.00 to HK\$20.00**, based on lower target 2024F PE multiple of 10x (vs 16x previously) and lower 2024F EPS. We revise down our target 2024F PE multiple from 16x (on a par with historic mean one-year forward PE) to 10x (1SD below historic mean one-year forward PE), based on slower 2024-25 earnings CAGR of 13% vs 20% previously.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	17,306	21,300	25,000	28,800
EBITDA	3,153	3,871	4,250	4,755
Depreciation & amortization	(1,121)	(1,278)	(1,401)	(1,495)
EBIT	2,032	2,593	2,849	3,261
Total other non-operating income	-	-	-	-
Associate contributions	10	20	30	40
Net interest income/(expense)	(263)	(298)	(323)	(348)
Pre-tax profit	1,779	2,315	2,556	2,952
Tax	(249)	(347)	(383)	(443)
Minorities	(30)	(39)	(43)	(50)
Net profit	1,501	1,928	2,129	2,459
Net profit (recurrent)	1,501	1,928	2,129	2,459

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	(3,037)	(2,883)	(2,398)	(2,383)
Pre-tax profit	1,779	2,315	2,556	2,952
Tax	(270)	(347)	(383)	(443)
Depreciation/amortization	1,121	1,278	1,401	1,495
Associates	(10)	(20)	(30)	(40)
Working capital changes	(1,190)	(898)	(899)	(943)
Non-cash items	(4,467)	(5,211)	(5,042)	(5,404)
Other operating cashflows	-	-	-	-
Investing	(3,037)	(2,883)	(2,398)	(2,383)
Capex (growth)	(3,432)	(3,130)	(2,630)	(2,630)
Investments	368	247	232	247
Proceeds from sale of assets	27	-	-	-
Others	-	-	-	-
Financing	(125)	(35)	(511)	(40)
Dividend payments	(616)	(672)	(673)	(674)
Issue of shares	8	-	-	-
Proceeds from borrowings	27,551	28,500	29,000	30,000
Loan repayment	(26,907)	(27,551)	(28,500)	(29,000)
Others/interest paid	(161)	(312)	(338)	(366)
Net cash inflow (outflow)	(1,306)	(532)	(166)	709
Beginning cash & cash	5,492	4,221	3,688	3,522
Change due to forex impact	35	-	-	-
Ending cash & cash equivalent	4,221	3,688	3,522	4,231

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	13,435	15,247	16,434	17,527
Other LT assets	3,844	3,898	3,961	4,034
Cash/ST investment	4,221	3,688	3,522	4,231
Other current assets	11,774	14,193	16,422	18,675
Total assets	33,274	37,026	40,339	44,467
ST debt	7,211	8,161	8,661	9,661
Other current liabilities	6,102	7,624	8,953	10,263
LT debt	1,087	1,087	1,087	1,087
Other LT liabilities	1,175	1,175	1,175	1,175
Shareholders' equity	16,918	18,174	19,630	21,415
Minority interest	780	806	834	866
Total liabilities & equity	33,274	37,026	40,339	44,467

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.2	18.2	17.0	16.5
Pre-tax margin	10.3	10.9	10.2	10.3
Net margin	8.6	9.1	8.5	8.5
ROA	4.7	5.5	5.5	5.8
ROE	9.1	11.0	11.3	12.0
Growth				
Turnover	24.3	23.1	17.4	15.2
EBITDA	4.8	22.8	9.8	11.9
Pre-tax profit	(3.6)	30.1	10.4	15.5
Net profit	0.3	28.5	10.4	15.5
Net profit (adj.)	38.6	29.0	10.4	15.5
EPS	(3.1)	27.4	10.4	15.5
Leverage				
Debt to total capital	24.9	25.0	24.2	24.2
Debt to equity	49.1	50.9	49.7	50.2
Net debt/(cash) to equity	17.9	24.8	26.3	25.5
Interest cover (x)	7.7	8.7	8.8	9.4